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SUBJECT: DESPITE LEADERSHIP CHALLENGES, TRANSNET MAKES MAJOR
INVESTMENTS TO BOOST PORT CAPACITY

REF: A. 08 CAPE TOWN 5; B. 09 MAPUTO 983

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This cable is a collaboration between Consulate General Durban and Embassy Pretoria. It is part of a series of reporting on regional transport infrastructure developments.

11. (U) Summary. South African Government-controlled transport logistics company Transnet launched a massive investment program to upgrade transport infrastructure to address capacity constraints and congestion. These investments follow a corporate restructuring and rebranding process that was completed under the reign of former CEO Maria Ramos, who led the company from January 2004 to February 2009. Despite challenges in the appointment of new permanent division executives, Transnet has continued with planned capital expenditure projects. Projects include initiatives to increase capacity at the busiest sea port in Africa (Port of Durban) and to develop a deep-sea port to support the SAG's Coega Industrial Development Zone (IDZ). The first phase of expansion at the Port of Durban is already completed and the Port of Ngqura began commercial operation in October. The capital expenditure plan aims to accommodate future demand growth and to retain regional competitiveness as neighboring ports privatize operations and increase investments. Future demand growth is built into the current expansion program, but leadership challenges will also need to be addressed to retain regional competitiveness. The Coega IDZ has lost its anchor tenant due to national power capacity shortages, and a new anchor project is being considered. End Summary.

CHANGES AT TRANSNET

12. (U) Post visited the Ports of Durban and Ngqura in July, September, and October to discuss progress with the Transnet upgrades and to promote USG maritime security initiatives. Transnet completed a restructuring and rebranding process in 2007 (Ref A) and has launched a R80 billion (\$10.6 billion) capital expenditure plan to address years of investment neglect. The restructuring process was completed under the previous Transnet CEO Maria Ramos. Ramos left the organization just prior to the April 2009 national elections and a permanent replacement has not been named yet. Transnet is also experiencing challenges in the appointment of officials for its division leadership posts. Transnet's Freight Rail (TFR) Division CEO Siyabonga Gama was suspended and faces internal disciplinary action over allegations of irregularities in tendering and procurement processes. Some financial mismanagement of the capital expenditure program is also being reported in the local press.

BUSIEST PORT IN AFRICA EXPANDS CAPACITY

13. (U) Transnet is in the process of upgrading capacity at the busiest port in Africa at a cost of approximately R1.4 billion (\$190 million). The Port of Durban currently has the capacity to accommodate 2.9 million TEUs per year and employs 1,500 staff on a 24-hour shift basis. (Note: One TEU represents the cargo capacity of a standard intermodal container, 20 feet long and 8 feet wide. End Note.) Ninety-nine percent of container traffic at the Port of Durban is processed through the Durban Container Terminal or Pier One. It is a major hub for container cargo from the Indian Ocean, Middle East, Far East, and Australia. Sixty percent of the cargo volumes are transported via roads, transshipments account for 27 percent of the cargo volumes, and the remaining 13 percent are transported by rail. Port of Durban officials also noted that trade with the U.S. was important for the South African economy. The U.S. is one of the few countries with which South Africa has a positive trade balance. Six percent of the cargo exported via the Port of Durban in the first half of 2009 was destined for the U.S. market.

14. (U) Transnet originally planned to increase capacity in 2009-2010. However, due to the global economic downturn, it has decided to increase investment incrementally to reach its expansion goals by 2010-2011 instead. Phase one of expansion, substantially completed, entailed reconfiguration of stacking capacity to increase it from 1.98 million TEUs to 2.3 million. Security upgrades and the installation of optical character recognition technology are part of the overall upgrades. The container scanner at the Port of Durban is being deployed at a temporary site until upgrades are completed.

15. (U) Phase two will involve the relocation of non-essential facilities outside the port operations area utilizing the freed-up space inside for additional stacking. This will increase capacity from 2.3 to 2.9 million TEUs. The new buildings for the relocations are expected to be completed by

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February 2010. An eight lane toll-like structure was constructed to facilitate truck staging and document processing. Up to 300 trucks can be staged in this area at a time.

PORT OF DURBAN STATISTICS

16. (U) Container traffic at the Port of Durban increased six percent from 2007 to 2008, but decreased 13.3 percent in the first half of 2009 due to the global economic slowdown. While cargo volumes are beginning to recover slightly in the second half of 2009, transshipment volumes have increased 23 percent in the same timeframe. The Port of Durban processed 1.1 million TEUs in the first half of 2009 and transshipments represented 27 percent of the total cargo flows. The increase in transshipment volume is mainly due to the piracy threat in the Gulf of Aden, which has led to an increase of bunkering services and transshipment processing through the ports in Southern Africa instead of Eastern Africa.

NEW DEEP-SEA PORT LAUNCHED

17. (U) Transnet has spent nearly \$500 million to develop the Port of Ngqura, a new deep-sea port in the Eastern Cape Province. Construction began in 2002 as part of the Coega Industrial Development Zone (IDZ). Commercial operations began on October 4. The depth of the entrance channel depth is 18 meters and the basin depth is 16 meters. The Port is located in close proximity to many of the South Africa-based automotive manufacturers. General Motors and other international companies have begun construction on logistics facilities at the Coega IDZ to take advantage of the new port. Meanwhile, Coega IDZ anchor tenant Rio Tinto cancelled its aluminum smelter project at Coega due to power sector capacity shortfalls and price increases. The SAG may push the PetroSA Refinery project as a potential substitute anchor.

18. (U) The new port will handle mostly container traffic.

Transnet hopes to develop the Port of Ngqura into a container hub for Africa. Two container berths are already completed and two more are expected to be completed by January 2010. Two berths for dry bulk and break bulk cargo and one for liquid bulk cargo have also been completed. A total of 32 berths have been identified for future port development. Transnet is still developing refueling capacity at the Port of Ngqura to accommodate bunkering services.

COMPETITION STIFF

¶9. (U) Sea port infrastructure is being upgraded throughout Southern Africa and some neighboring countries have begun privatizing port operations (Ref B). Some South Africa-based manufacturers have started utilizing the Port of Maputo to reduce overall transport logistics costs and to avoid congestion experienced at South African ports.

COMMENT

¶10. (U) South Africa's comparative advantage lies in the fact that Transnet also controls most of the rail infrastructure in the region and has better rail rolling stock capacity than its neighbors. Transnet Freight Rail provides some rail stock to neighboring countries that do not have sufficient capacity (Ref B), but prioritizes for the needs of South African ports first. The capital expenditure plan launched by Transnet aims to accommodate future demand growth and retain regional competitiveness. The global economic slowdown gave Transnet some breathing space to catch up on its capital expenditure programs; cargo handling capacity was a constraint in 2008. Leadership challenges will also need to be addressed for SA ports to remain competitive with others that are privatizing in the region.

¶11. (U) Loss of the Rio Tinto aluminum smelter project at Coega may impact the long-term development of the Coega IDZ. The SAG remains committed to the success of Coega to boost economic growth in a province that has historically faced difficulty attracting foreign investors.

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